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Sent: Monday, February 14, 2005 3:59 PM
To: restructure.sizestandards@sba.gov
Subject: RIN 3245-ZA02

To whom it may concern,

The following are comments regarding the inclusion of venture capital companies within the SBIR program.

As a small manufacturer, and a recent SBIR Phase I award winner, we believe that allowing venture capital companies (VC's) broad access to the SBIR program would be detrimental to the program. There are several reasons why, but the most critical would be that, smaller companies not supported by venture capital concerns would be "out-resourced", even though their technology may be more innovative. Our use of the term "out-resourced", pertains to the fact that VC backed businesses would have an unfair advantage over non-VC backed businesses in several areas; laboratory research facilities and equipment, back-end sales potential, scale-up for production, and nation-wide distribution and marketing capabilities.

Although all of these aspects are advantages that the SBIR program needs to get technologies implemented right through Phase III, and are assurances that the funding would be a worthwhile investment, it would eliminate and change significantly the premise upon which the program was founded. This would create a completely uncompetitive situation for the small companies that traditionally win SBIR awards, due to their lack of vast marketing, distribution, and research resources. This would further reduce the program to lower-risk technologies that the VC companies wish to market under their smaller investment organizations. These factors would also change the profile of what a successful SBIR company is.

Small companies without VC investment will appear too high risk when their proposals are being evaluated, because of their limited marketing, production, and commercialization resources. We have experienced this already with two recent submissions. Upon questioning the technical point of contact, an enormous amount of weight was given to back-end sales potential, marketing, and distribution in the award decision for Phase I, and beyond Phase II. In fact, it seemed that a large multi-national company would be the only one able to meet the requirements, or a small company that only specialized in this one area. This was astounding to hear since this was still a developmental, proof of concept Phase I. These types of evaluations place small businesses into a no-win cycle of having technology, but limited resources to market and commercialize and therefore losing the award, or having the resources to market and commercialize, but not innovative enough technology and losing the award. Either way, the company feels the need to be larger than what it is. These situations force small businesses into searching out VC companies prior to Phase I awards so that their proposals "jump-out" at the evaluators. Again, this is not what we thought the SBIR program was about.

Allowing VC interests to control SBIR companies will begin to narrow the poll of awardees, and eventually the VC backed entities will be the only companies proposing for SBIR contracts. The

smaller, non-VC backed companies will consider the program to be too big a risk, and a huge waste of time and resources to bid on. This will in-turn, lead to large institutions, and universities filling the gap the small companies left. Involvement in the SBIR program was never meant for these types of interests.

Last year the President issued executive order #13329, to increase SBIR award to small manufacturers. This is the direction that the program needs to move toward, although if one speaks to most of the technical contacts in the program, they view this order as merely a suggestion. Allowing small research entities, and small manufacturing entities to collaborate, would allow the program to move beyond Phase II's quicker. It is only after Phase II that any VC company should be considered for involvement because by then, the smaller concern has established itself with an advancement of its technology, and will then move forward with assistance for commercialization. The large institutions, universities, and VC companies have their own programs to avail themselves of.

The SBIR program has allowed this small manufacturing company to grow its technology, and has allowed it to showcase these advances to numerous government agencies. These agencies have shown interest in this technology, and are willing to help in further development even though we were not awarded a Phase II contract. This type of environment enables small businesses to remain a viable part of American manufacturing and innovation. By opening this process to large institutions, and venture capital, yet another avenue for the small business to advance its value to America and the world will be closed.

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Sincerely,

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